

HIGHER EDUCATION

Overarching Higher Education Issues

Limiting Student Enrollment. The Governor proposes to reduce the number of new freshman enrolling at the UC and CSU by 10 percent (equivalent to 7,000 full-time students (FTES)), beginning in the 2004-2005 academic year, and instead redirect them to local community colleges using “dual admissions” programs. Under the “dual admissions” programs, the UC or CSU guarantees admissions to the student, contingent upon them completing the specified academic requirements while at the community colleges. This redirection is expected to result in \$45.8 million in savings in the 2004-05 fiscal year. To assist in the eventual transfer of these students from the community colleges to the public four-year colleges, the Governor provides the UC and CSU with an additional \$3.5 million for counseling and other transfer-related services.

Staff notes that, while many new students will choose to take advantage of the dual admissions programs and enroll at the California Community Colleges, there is a distinct possibility that some students may simply choose a different (private or out-of-state) college instead.

Funding Enrollment Growth. The Governor’s budget contains no additional funding for student enrollment growth at either the UC or the CSU; as a result, it is expected that these institutions may further have to limit the number of students they can serve (beyond the above-noted reduction in the freshman class). This is expected to result in 5,000 unfunded FTES at UC and over 16,000 students who will be unserved at CSU.

At the community colleges, the Governor proposes to fund an additional 3 percent enrollment growth (which equates to 33,000 FTES) at a cost of \$121.1 million. Within this growth allocation, the community colleges are expected to absorb the additional 7,000 FTE students being redirected from the UC and CSU.

Proposed Long-Term Student Fee Policy. As part of his 2004-05 Budget, the Governor proposes to establish a long-term student fee policy, aimed at making fee increases regular, predictable, and modest. The prior long-term student fee policy expired a decade ago and has never been replaced. Under the Governor’s proposal, increases in student fees would be linked to changes in California Per Capital Personal Income (CPCI) and would be capped at 10 percent annually. While the language of the fee proposal is still pending, in the short-term the Governor proposes student fee increases in all three segments of higher education for 2004-05.

At the community colleges, the Governor proposes to increase fees by \$8 per unit (from \$18 to \$26) for nonbaccalaureate degree holders; students who have already earned a Bachelor’s Degree would be charged \$50 per unit rather than the \$26 per unit rate. Combined, these two fee increases are expected to generate \$91 million in fee revenue for the community colleges (which offsets their General Fund appropriation by a like amount).

At the UC and CSU, fees are proposed to increase by 10 percent for undergraduate students, 40 percent for graduate students, and 20 percent for nonresident students (please see corresponding fee charts on pages 1-17 and 1-19 of this document, respectively).

In order to “capture” the General Fund savings associated with the increases in student fees, the Governor simply reduces UC, CSU and Community College funding by \$109 million, \$78.4 million, and \$91 million, respectively; the burden then falls to the institutions to collect fee revenues totaling the reduced amounts. If the revenues fall short, then the universities will essentially be hit with an unallocated reduction to make up the difference.

Staff notes that in many cases, it will be close to impossible for the institutions to reap the full amount of revenues expected by the Administration from the fee increases. At UC for example, most graduate students don’t pay student fees because, under contract, graduate students in teaching and/or research assistant jobs are exempted from paying these costs as part of their compensation package. At the community colleges, it is likely that many older, casual students will drop out rather than pay \$50 per unit, again making it difficult to achieve the \$91 million in revenue associated with the fee increases.

Charging Students for “Excess” Units. Another variation on establishing a “differential” fee for baccalaureate degree holders is proposed by the Governor for students attending the UC and CSU. This proposal is specifically aimed at providing a financial incentive for students who have already earned enough units for a Bachelor’s degree to graduate, rather than staying enrolled and taking additional (presumably unnecessary) courses. Specifically, the Governor proposes to charge students who have earned upward of 110 percent of the necessary units towards graduation a differential fee, per unit, in order to eliminate any state money being used to subsidize their education. If students were to pay the full cost of instruction the price tag would be approximately \$15,000 per year at UC and \$7,500 at CSU.

Under the Governor’s proposal, the student would be given a “cushion” of an additional 18 units at UC and 14 units at CSU in order to accommodate circumstances where students were unable to enroll – in a timely manner – in the courses they needed to graduate. UC indicates that there are a relatively small number of students who would be charged the roughly \$300 per unit fee under the above scenario. At CSU, the fee would likely be closer to \$200 per unit. However, both UC and CSU seriously doubt that they would be able to reap much (if any) of the \$33.7 million worth of revenue that this proposal is expected to raise. Instead, students would, presumably, graduate and/or stop taking classes if the cost were to escalate to \$200-\$300 per unit. As is the case with other student fee increases, if the revenues fall short, the university will be hit with an unallocated reduction to make up the difference.

Financial Aid. In addition to increasing the cost of student attendance at UC, CSU and Community Colleges, the Governor’s Budget proposes to provide LESS support for student financial aid to offset these increases. Specifically, the Governor is proposing to alter the long-standing practice of returning one-third of the revenue generated from a student fee increase to campus-based financial aid. Instead, under the Governor’s proposal, only 20 percent of the revenue will be returned to financial aid, further exacerbating the impact of the proposed fee increases. On the Cal Grant side of the equation, the Governor’s Budget does not include any increases in the award amount to offset the fee increases for financially needy students, thereby decreasing the “buying power” of the Grant. (See page 1-22 of this document for further information.)

Eliminating Outreach Services to Underrepresented Students. In December 2003, the Governor reduced funding mid year -- under the auspices of Budget Act Control Section 27.00 -- for student outreach programs at both UC and CSU by a total of \$24.7 million (\$12.2 at UC and \$12.5 million at CSU). Under the Governor's 2004-05 proposal, the mid-year cuts to student outreach programs continue into the budget year -- when the 2004-05 budget proposes to cut **ALL** state funding (and some UC and CSU institutional funding) to those programs.

6420 California Postsecondary Education Commission

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. CPEC serves as the principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC's responsibilities include conducting analyses and making recommendations related to long-range planning for public postsecondary education, and analyzing both state policy and programs involving the independent and private proprietary educational sectors.

As part of the 2003-04 Budget Act, the Administration was granted broad authority -- under Control Section 4.10 -- to reduce state governmental operations and downsize the number of state government employees. Pursuant to this control section, the Governor imposed a mid-year (2003-04) cut of \$352,000 (\$316,000 General Fund; \$36,000 federal funds) and 4.0 positions from CPEC's ongoing operations. For 2004-05, the Governor proposes to continue this reduction; however, no other budget cuts or reorganization plans are being proposed.

6440 University of California

The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry and veterinary medicine. The UC consists of nine campuses -- Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz -- which offer undergraduate, graduate and professional education. The University of California, San Francisco is solely dedicated to the health sciences, and a tenth campus is currently being planned and constructed outside of Merced in the Central Valley. In addition to its instructional facilities, the university operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses as well as operating the Sacramento, San Diego and Orange county medical facilities.

Current-Year Reductions. As part of the mid-year (2003-04) reductions, the Administration reduced (using Control Section 27.00 of the Budget Act) General Fund support for the UC by a total of \$29.9 million specifically targeted at Student Outreach (\$12.2 million) and the Institute for Labor Studies (\$2 million), with the remainder being an Unallocated Reduction (\$15.7 million).

2004-05 Proposed Reductions. In addition to the (1) reductions to student enrollment, (2) reductions associated with student fee increases, and (3) elimination of student outreach, (as discussed on Pages 1-13 through 1-15), the Governor's Budget reduces funding (\$35.3 million) for classroom instruction by increasing the student-to-faculty ratio, and also reduces funding for Academic and Institutional Support (including libraries) by 7.5 percent (\$45.4 million).

These reductions would be partially offset by an \$80.5 million augmentation which restores one-time spending reductions in the 2003 Budget Act.

Further, the 2004-05 budget proposes to eliminate the UC Multi-Campus Institute for Labor Studies by cutting the remaining \$2 million needed to keep the Institute operational. Also proposed for elimination is funding for UC's Digital California Project, which aimed to increase K-12 school access to the Internet "backbone." In addition, funding for all state-supported research would be reduced 5 percent (\$11.6 million) under the Governor's proposal. The current-year unallocated reduction of \$15.7 million grows to \$47.2 million in 2004-05 and is reflected by increased reductions associated with student fee increases.

UC Merced. The Governor and the UC continue to strive towards opening the new UC Merced campus in the Fall of 2005. This start-up date was delayed last year from the targeted opening in 2004. To meet this end, the 2004-05 budget proposes to allocate an additional \$2.7 million for start-up costs associated with the Merced campus, bringing the annual operational costs to \$20 million. These funds are used primarily to support a core staff of administrators and academicians, develop curriculum, and recruit faculty.

Specifically, the capital outlay portion of the budget in the current year (2003-04) includes \$164.3 million in predominately lease-revenue bond funds for working drawings and construction associated with all phases of academic and support building construction, including the Science and Engineering Building, the Library/Information Technology Center, the initial classroom and office building and the Logistical Support/Service Facilities. In 2004-05, the Governor's Budget proposes an additional \$9.3 million in general obligation bonds (from the March 2004 School Bond Act) to continue construction and purchase equipment for the Logistical Support/Service Facilities.

Student Fees. For the third time in nine years, student fees are proposed to be increased at the UC in 2004-05. Specifically, the Governor's Budget proposes to increase undergraduate fees by 10 percent, bringing the total mandatory systemwide fees at UC to \$6,028 per year. Fees for graduate students, are proposed to increase 40 percent, while out-of-state students will pay an additional 20 percent on top of the other increases. Additional fees which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV) are also proposed to be increased, in accordance with the Administration's proposal of reducing (by 25 percent) the amount the state subsidizes professional school students.

Fees at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) are expected to average \$7,423 in 2004-05, which is \$1,395 higher than the 2004-05 proposed fee levels for UC resident undergraduates.

University of California Student Fees				
	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$4,111	\$11,810	\$4,585	\$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03	4,017	16,396	5,017	16,393
<i>(fees increased mid-year)</i>				
2003-04	5,530	19,740	6,843	19,333
2004-05	6,028	22,504	8,931	23,922

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an average of the campus-based fees for the nine campuses.

Fees for professional school students in such disciplines as medicine, dentistry, law, veterinary medicine and business have yet to be determined. Nursing fees are proposed to remain constant at an additional \$2,925 annually.

Move Towards Professional School Privatization. A relatively new theme in the Governor's Budget proposal is a reduction in the amount of state support provided for professional students and professional-degree education (as noted below with Hastings College of Law). This is illustrated by the 25 percent reduction in the state subsidy of professional school students at UC (which will be reflected in higher student fees in those areas) coupled with the accompanying operational reductions to Hastings Colleges of Law (see below).

6600 Hastings College of the Law

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of

directors who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of Law.

Current-Year Reductions As part of the mid-year reductions implemented by the Administration, funding for Hastings College of Law was reduced by \$302,000.

2004-05 Proposed Reductions. For the 2004-05 fiscal year, the Administration proposes reductions totaling \$3.43 million (from a \$11 million base General Fund budget in 2003-04); total General Fund expenditures for Hastings are proposed to be \$8.1 million in 2004-05.

The largest reduction (\$2.2 million) is aimed at reducing state support for professional school students by 25 percent (consistent with the proposal for UC). The Administration expects that student fees will be increased by the Hastings College Board of Directions to backfill the reduction. The exact amount of the fee increase has yet to be determined by the board. Further, nonresident tuition would also increase by 20 percent. As with fee increases at other California colleges, if the revenues fall short, Hastings would be expected to absorb the difference in the form of an unallocated reduction.

The remaining reduction is targeted at decreasing the amount of funding available for Academic and Institutional Support by \$402,000. At a single-subject college like Hastings, the entirety of this reduction will fall on the college's law library.

6610 California State University

The California State University (CSU) system is composed of 22 campuses, including 21 university campuses and the California Maritime Academy. Administered and managed by an independent governing Board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate- and graduate-level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic "general education" breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate- and masters-level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral-level education with the University of California and private and independent institutions.

Current-Year Reductions. As part of the mid-year (2003-04) reductions, the Administration reduced (using Control Section 27.00 of the Budget Act) General Fund support for the CSU by a total of \$23.8 million specifically targeted at Student Outreach (\$12.5 million), with the remainder being an Unallocated Reduction (\$11.3 million).

2004-05 Proposed Reductions. In addition to the (1) reductions to student enrollment, (2) reductions associated with student fee increases, and (3) elimination of student outreach (as discussed on Pages 1-13 through 1-15 of this document), the Governor's Budget reduces funding (\$53.5 million) for classroom instruction by increasing the student to faculty ratio, and also reduces funding for Academic and Institutional Support (including libraries) by 7.5 percent (\$52.6 million). Furthermore, the 2004-05 budget proposes to delay \$6 million in funding for CSU's Common Management System (CMS) database.

These reductions would be partially offset by a \$69.5 million augmentation which restores one-time spending reductions in the 2003 Budget Act.

Student Fees. For the third time in nine years, student fees are proposed to be increased at the CSU in 2004-05. Specifically, the Governor's Budget proposes to increase undergraduate fees by 10 percent, bringing the total mandatory systemwide fees at CSU to \$2,250 per year. Fees for graduate students will increase 40 percent (to \$3,156), while nonresident tuition will go up by an additional 20 percent (\$12,420 annually for an undergraduate student)

Fees at the CSU comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged \$5,272 in 2003-04, which was \$2,700 more than the amount paid by CSU resident undergraduates.

California State University Student Fees				
	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
(fees increased mid-year)				
2003-04	2,016	10,506	2,256	10,716
2004-05	2,250	12,420	3,156	13,326

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. The CCC offers academic programs that (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education

of California's work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state's economic development programs.

Current-Year Reductions. Unlike UC and CSU, the community colleges were spared from any mid-year reductions, as were their K-12 counterparts.

2004-05 Proposed Adjustments

Enrollment Growth. The Governor's 2004-05 budget proposes to provide \$21.1 million to fund a 3 percent (or 33,000 FTES) increase in student enrollment. Community college enrollment funding has continuously failed to keep pace with actual student enrollment, as is evidenced by the over 31,000 unfunded FTES currently enrolled on community college campuses throughout the state.

Equalization. The Governor's budget provides an additional \$80 million to fund equalization amongst the various community college districts, in an attempt to remedy the current per student funding disparities between districts.

Categorical Program Consolidation. The Administration proposes to consolidate various categorical programs, and shift the resources tagged to those programs (totaling over \$300 million) to General Purpose funds (thereby rolling the dollars into the base apportionments budget for the system.) Specifically, the budget proposes to consolidate funding for the following categorical programs: (1) Partnership for Excellence; (2) Matriculation; (3) Part-Time Faculty Health Insurance; (4) Part Time Faculty Compensation; (5) Part-Time Faculty Office Hours; and (6) Telecommunications and Technology Services. While the details of this proposal will be forthcoming, the Administration has stated its intent to retain the programs in statute, but simply consolidate the funding.

Student Fees. For 2004-05, the Governor proposes to increase student fees over 40 percent, from \$18 per unit to \$26 per unit. As part of the 2003-04 Budget Act, community college fees were raised from \$11 per unit to \$18 per unit and the Legislature redirected \$38 million in funding from other portions of the community college budget in order to enhance local community college financial aid services and conduct a statewide public relations and information campaign to mitigate the negative effects of the fee increase. The 2004-05 Budget proposes to continue funding a similar effort.

In addition, to the above-noted fee increase, the Administration proposes to penalize community college students who have already earned a baccalaureate degree by charging them double (\$50 per unit) what other students will be paying. It is unclear if this proposal would exempt individuals re-entering the workforce and/or participating in job training programs.

As current law dictates, the General Fund budget for the community colleges is offset by the amount of revenue that the fee increases are expected to generate (\$91 million). In essence, the fee increase benefits the General Fund of the state, not the colleges directly. Given the substantial cost proposed for BA degree holders, it is likely that those students will choose to drop out of classes rather than pay the additional fees, thereby making it impossible for the community colleges to actually generate the \$91 million in revenue.

At present, approximately 40 percent of community college students are eligible for Board of Governor (BOG) Student Fee Waivers; the Administration believes that this percent will likely remain constant.

Deferrals. The Governor's Budget continues to defer \$200 million in General Apportionment payments from June to July (of the following fiscal year). In order to keep the deferral current, the Governor's 2004-05 budget provides the community colleges with \$200 million to pay the June 2004 apportionment claims (from the 2003-04 Budget) that will instead come due in July 2004.

Proposition 98 "Split." The community college share of the Proposition 98 guarantee is expected to increase substantially from approximately 9.48 percent in the current year (2003-04) to 10.02 percent in 2004-05.

7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants, work study, and loan programs for postsecondary students attending California educational institutions. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state's student population and, provides financial aid information to students, parents, and California's education community.

Background. In 2000, the Legislature passed and the Governor signed into law SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth up to approximately \$8,000 to \$9,000 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award a student must have a minimum GPA of 3.0 ("B" average) and must not exceed the family income limit, which in the current year is approximately \$66,700 for a family of four or \$77,100 for a family of six. Students with GPAs under 3.0, but higher than a 2.0 ("C" average), are eligible for a Cal Grant "B" award provided their annual family income does not exceed \$35,100 for a family of four. In addition, community college students meeting specified GPA and income requirements, who are transferring to a four-year college or university, prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a "second chance" to receive a Cal Grant and are eligible to compete for a bloc of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

2003-04 Proposed Policy Changes. As part of his 2004-05 budget, the Governor proposes to substantially limit the scope of the Cal Grant program by reducing both the maximum income level of Cal grant eligibility and reducing the award level for private college students. In addition, and counter to codified legislative intent, the Governor does not provide a increase in the Cal Grant program to cover the proposed 10 percent student fee increases at the University of California and the California State University.

- **Eligibility.** The Governor proposes to reduce the maximum family income necessary to be eligible for the Cal Grant A Program by 10 percent, from the current level of \$66,700 to \$60,840 for a family of four. In the Cal Grant B Program, the income ceiling would be reduced from \$35,100 to \$31,950 also for a family of four.

Cal Grant Income Ceilings (Dependent Students)

Family Size	Cal Grants A and C		Cal Grant B	
	2003/04	2004/05 (proposed)	2003/04	2004/05 (proposed)
2	\$60,000	\$54,630	\$28,000	\$25,420
3	61,400	55,980	31,500	28,710
4	66,700	60,840	35,100	31,950
5	71,500	65,160	39,200	35,730
6 or more	77,100	70,290	42,400	38,610

- **Grant Amount.** The Governor proposes to reduce the grant level for students attending private and independent colleges by over \$4,200 annually. This would result in the maximum grant level being decreased from the current \$9,708 to \$5,482. This reduced level equals the grant level being proposed for students at the University of California. The Administration estimates that this reduction will reap \$32.7 million in General Fund savings.

Staff notes that the above proposal contradicts the original policy rationale for paying a higher grant level to private college students: to allow students to make a real choice among the higher education options, and as a result, redirect a portion of the eligible postsecondary students to nonpublic institutions. The goal of the policy was to ultimately (1) assist the state in avoiding additional costs associated with providing postsecondary education for ALL eligible students and (2) help to manage the surging student enrollments under the Tidal Wave 2 population boom.

In addition to the above-noted decrease, the Governor proposes to dissolve the practice of increasing the Cal Grant awards to cover any additional costs associated with fee increases at the UC and CSU. This policy change runs counter to codified legislative intent. The Administration estimates that this policy change would avoid \$23.6 million in additional General Fund costs.

Other Budget Adjustments. As part of the 2003-04 mid-year reductions, the Governor decreased funding for the Cal Grant program by \$50 million to account for fluctuations in applicant and award estimates.